

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 L-03 /081 W

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P 222112Z JUL 76

FM AMEMBASSY MANAGUA

TO SECSTATE WASHDC PRIORITY 0676

LIMITED OFFICIAL USE MANAGUA 3491

ATT: JOSEPH GRUNWALD, ARA, JOHN BUSHNELL, TREASURY,
MARVIN WEISSMA, ARA/CEN, FROM AMBASSADOR

E.O. 11652: NA

TAGS: ELTN, BENC, NU

SUBJECT: SOMOZA'S VIEW OF IDB LOAN FOR MANAGUA CIRCUMFERENTIAL
HIGHWAY

REF: BUSHNELL LETTER TO AMBASSADOR THEBERGE, JUNE 25, 1976

1. DURING MEETING ON JULY 21 WITH PRESIDENT SOMOZA, I EXPLAINED AT SOME LENGTH OUR CONCERN ABOUT THE CONTROVERSIAL \$24 MILLION IDB LOAN FOR THE MANAGUA CIRCUMFERENTIAL HIGHWAY. I SAID THAT WE FELT IT WOULD SERVE NEITHER USG, IDB NOR GON INTERESTS TO PROCEED WITH THE LOAN NEGOTIATIONS FOR REASONS OUTLINED IN REFERENCED BUSHNELL LETTER. I POINTED OUT THE ADVANTAGES OF CHANGING THE CIRCUMFERENTIAL HIGHWAY PROJECT FOR A MORE DEFENSIBLE \$24 MILLION RURAL FEEDER ROAD PROJECT, WHICH WOULD PROVIDE THE GON WITH THE SAME AMOUNT OF SOFT LOAN FUNDS FROM THE FSO.

2. I REMINDED SOMOZA THAT AS DONOR, INDEED PRINCIPAL DONOR, TO THE IDB THE USG HAD A LEGITIMATE INTEREST IN ALL LOAN PROJECTS THAT MUST BE APPROVED BY THE U.S. AND OTHER EXECUTIVE DIRECTORS.

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WHILE IT WAS, IN THE FINAL ANALYSIS, THE DECISION OF THE GON AND

IDB WHETHER OR NOT TO PROCEED, IT WAS OUR RESPONSIBILITY TO BRING POTENTIALLY SERIOUS PROBLEMS ASSOCIATED WITH THE LOAN PROJECT TO THE ATTENTION OF THE BANK AND THE GON.

3. IN REPLY, THE PRESIDENT SAID THAT HE WAS WELL AWARE OF THE ADVERSE PUBLICITY THAT HAD BEEN GIVEN TO THE LOAN BY THE JACK ANDERSON COLUMN AND OTHERS IN THE U.S. CONGRESS. HE ALSO KNEW THAT GROUPS HOSTILE TO THE GON IN NICARAGUA AND IN THE UNITED STATES WERE ATTEMPTING TO STOP THIS LOAN PROJECT. HOWEVER, THE PROJECT WAS A GOOD ONE, AND THE FACT THAT HIS FAMILY OWNED PROPERTY BOUGHT DECADES AGO WHICH WOULD BENEFIT FROM THE ROAD WAS IRRELEVANT. OVER 140 PERSONS, OR FAMILIES, WOULD ALSO BENEFIT. HE SAID THAT THE INCREASED VALUE OF THE PROPERTY DUE TO THE ROAD WOULD BE TAXED AT THE TIME OF SALE, AS WAS NICARAGUAN PRACTICE. HE ADDED THAT HE RESOLUTELY REFUSED TO PERMIT A SMALL PRESSURE GROUP TO HALT THIS PROJECT. IT WOULD SET AN EXTREMELY BAD PRECEDENT. HE WAS NOT AFRAID OF ADVERSE PUBLICITY FOR HIMSELF OR HIS GOVERNMENT. HE NOTED THAT THE IDB HAD FINANCED MANY CONTROVERSIAL LOANS OVER THE YEARS AND NOTHING CATASTROPHIC HAD HAPPENED. HE INTENDED TO PROCEED WITH THE LOAN NEGOTIATIONS AND WAS COMPLETELY WILLING TO TAKE THE RISKS.

4. I REMINDED HIM THAT THE USG HAS VETO POWER OVER THE USE OF THE IDB'S FSO LOAN FUNDS. WHILE I WAS NOT PRIVY TO THE FINAL USG POSITION ON THE LOAN, I SUGGESTED THAT CIRCUMSTANCES MIGHT COMPEL THE U.S. TO VETO THE LOAN. HE WAS NOT DETERRED, AND EMPHASIZED THAT THE MANAGUA CIRCUMFERENTIAL LOAN HAD BECOME A TEST OF THE POWER OF THE ANTI-SOMOZA GROUPS. IF THEY WERE SUCCESSFUL IN BLOCKING THIS LOAN, HE SAID THEY WOULD FIND REASONS FOR STOPPING OTHER LOANS.

5. HE THANKED ME FOR EXPRESSING USG CONCERN ABOUT THE PROJECT AND THE MEETING ENDED ON A CORDIAL NOTE.
THEBERGE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: POLICIES, CONSTRUCTION, DIPLOMATIC DISCUSSIONS, BANK LOANS, HIGHWAYS
Control Number: n/a
Copy: SINGLE
Draft Date: 22 JUL 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: cahillha
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MANAGU03491
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760282-0903
From: MANAGUA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760733/aaaabcix.tel
Line Count: 94
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: cahillha
Review Comment: n/a
Review Content Flags:
Review Date: 21 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 JUL 2004 by izenbei0>; APPROVED <29 OCT 2004 by cahillha>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: SOMOZA'S VIEW OF IDB LOAN FOR MANAGUA CIRCUMFERENTIAL HIGHWAY
TAGS: ELTN, BENC, NU, US, IDB, (SAMOZA DEBAYLE, ANASTASIO)
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006